BANK OF CANADA

ANNUAL REPORT TO MINISTER OF FINANCE

AND STATEMENT OF ACCOUNTS

FOR THE YEAR 1951

BANK OF CANADA

Ottawa, February 11th, 1952.

THE HON. D. C. ABBOTT, Q.C.,
Minister of Finance,
Ottawa, Ontario.

Dear Sir,

In accordance with the provisions of the Bank of Canada Act Amendment Act, I am enclosing herewith in duplicate a statement of the Bank's accounts for the fiscal year 1951, signed by the Governor and the Chief Accountant, and certified by the Auditors, in the form prescribed by the by-laws of the Bank.

A better appreciation of economic and financial events during 1951 may be obtained by starting at the middle of the year 1950. At that time the opening of hostilities in Korea and immediately following developments created the general expectation in both the United States and Canada that demands for goods and services would exceed available supplies for quite a long period.

This anticipation was probably based more than anything else on the fact that greatly stepped-up defence programmes would ultimately require large-scale use of both materials and manpower. For the near future, however, the most important factor was the stimulus which the longer run prospect of shortages and higher prices gave to new capital investment of every kind and to inventory accumulation of many commodities by governments and business. The fact that there was already a high level of economic activity made the prospect of serious inflationary pressures seem a more immediate danger.

There was therefore in prospect the diversion of an increasing amount of the output of goods and services away from consumers. For this to take place without inflationary pressure would require an increase in the level of saving. Consumers, however, were prominent among those who expected shortages and sought

to increase their purchases—particularly of durable goods which might be most seriously in short supply later. In the process consumers saved less rather than more, used up past liquid savings and increased their debts.

The developments which have been described imposed an almost immediate pressure on available supplies of many things and on their prices. This effect varied widely depending on the extent of the anticipated increase in defence requirements, the difficulty and cost of obtaining additional supplies and the degree of inelasticity of ordinary civilian demands. Prices of certain primary products were affected most quickly and to the greatest degree. Important among such goods were rubber, tin, other non-ferrous metals, wool and other textile fibres and a few food items. The general level of wholesale prices did not rise as rapidly as did the sensitive primary commodity prices, but the increase between mid-1950 and the first quarter of 1951 was very substantial indeed. The average level of retail prices rose less rapidly but still quite appreciably during the first months following Korea.

In the case of Canada external developments were more important than domestic factors in pushing up price levels during the latter half of 1950. The prices paid for our imports and received for our exports increased substantially. Because of the importance of our trade with other countries import and export prices have a very important direct and indirect influence on our general price level. However, the very high level of domestic demands for goods and services during this period must have been an additional contributing factor in the rise of prices in Canada.

By the first part of 1951 the first stage of economic developments in the post-Korea situation had come to an end both in Canada and the United States—on the whole slightly earlier in the United States. This was the period in which expectations of shortages dominated the scene. There had been sharp increases in primary commodity prices, heavy buying for inventory accumulation and abnormally large consumer purchases. Although there had been already a high rate of economic activity at the middle of 1950, the productive system showed itself capable of even greater efforts and the level of output rose quite appreciably.

In consequence of this factor and some delay in the time at which defence programmes became large consumers of materials, the physical quantities of goods available for non-defence purposes were greater than had been expected by those engaged in competitive bidding for them.

In the case of some essential materials where the most serious shortages were anticipated, direct action was taken in various ways to restrict demand and the United States government slowed down its efforts to stock-pile certain commodities. In general, the failure of any serious physical shortages to develop as soon as had been anticipated introduced enough doubt about the future to slow down buying. Sharp increases in certain prices tended both to encourage a larger flow of supplies and to discourage some demands. Impairment of liquid asset positions and larger outstanding debt obligations tended to revive public interest in a higher level of saving.

Various fiscal and monetary measures were adopted in the first part of 1951 with a view to restraining the degree of inflationary pressure. In Canada action of this kind was along the following lines. During February Bank of Canada had discussions concerning the bank credit situation with representatives of the chartered banks, the results of which are mentioned later in this Report. In February Government increased downpayments on residential housing under the National Housing Act. In March Government increased downpayments and shortened repayment periods on instalment credit under the terms of the Consumer Credit Regulations which had come into effect in November 1950. In April the Government's Budget for 1951-2 provided for increased excise, sales and personal and corporate income taxes and postponed for a period of four years the right to claim depreciation as a reduction of taxable income for certain types of new capital expenditure.

As buying pressures eased following the first quarter of 1951, the requirements of defence and capital expenditure were gradually increasing and the overall economic situation remained one of strain in which the continuing transfer of resources to defence purposes without further inflationary consequences still involved serious problems.

The easing in total consumer demand did not affect all types of expenditure equally. Purchases of durable consumer goods had

been at an abnormally high rate to the first quarter of 1951 and subsequently showed a sharp decline. In the case of other goods —such as clothing—where price increases had been appreciable and demand is normally fairly elastic, there were also considerable declines in consumer demand. Although price advances in foodstuffs had been among the most important, total demand for food tends to be inelastic and sales held up, with the greater dollar expenditure involved perhaps having some depressing effect on other categories of consumer expenditure.

For some firms there was a decline in new business and in volume of output greater than any fall which was occurring in retail sales of their products. Sometimes this happened as the result of manufacturers or merchandisers slowing down the rate at which they had been accumulating inventories. In other instances, the increasing availability of imports—which had frequently been supplying less than a normal proportion of domestic sales—resulted in a more competitive market. These developments tended to have the greatest effect on Canadian producers who had expanded their capacity sharply in the post-war period in order to meet the backlog of consumer demands which had accumulated during the war.

For these and other reasons after the first quarter of 1951 more firms found themselves with plant, materials and labour capable of turning out a greater volume of their products than their customary markets apparently would absorb. In certain cases such industries were able to find other markets. In other instances they were not able to do so and there were more and larger pockets of unemployment and part-time work. The lower level of activity in certain industries during the latter part of 1951 must have had some effect towards moderating the general competition for materials and labour at a time when the overall rate of production and employment remained high and there was still some degree of inflationary pressure.

This development did not however result in any significant decline in price levels. So far as wholesale prices were concerned there was approximate stability after the first quarter of the year with declines in certain primary commodities being about matched by increases in other categories. At the retail level the process of earlier advances in raw material prices and other cost increases,

working up through the price system, resulted in the cost of living index continuing to rise until the final quarter of the year. The problem of selling certain goods frequently resulted in special sale prices but the "regular" price quotations, on which price indexes are based, in most cases did not reflect this trend.

Canadian Price and Earnings Indexes ①

(1950 Average=100)

Wholesale Price Index	June 1950	Dec. 1950	Mar. 1951	Average 1951	Dec. 1951
All Items	99	107	114	114	113
Raw Materials	101	106	112	112	111
Manufactures	98	107	116	115	114
Farm Products②	103	103	115	111	110
Cost of Living Index					
All Items	99	103	108	111	115
Food	99	104	111	114	118
External Trade Prices					
Imports	99	106	113	113	108④
Exports	99	104	110	114	117④
Average Earnings in Manufacturing③					
Hourly	100	104	108	112	119⑤
Weekly	99	106	108	111	118⑤

①Dominion Bureau of Statistics figures converted to the base 1950 average=100.
②An independent series with weights and prices differing from those used in the total wholesale price index.
③Hourly-rated wage-earners in manufacturing establishments with 15 or more employees.
④Preliminary. ⑤November figures.

In the first part of 1951 the rise in the cost of living index was largely attributable to higher prices for a few basic foodstuffs —particularly meats—for which there was a strong export market or a tight domestic supply situation. This development gave rise to demands for wage increases which on the average considerably exceeded the average rate of increase in output per manhour in trade and industry and therefore tended to increase the cost of goods and services. On the whole the increase in weekly wages during 1951 was about the same as the rise in the level of retail prices but undoubtedly some groups of wage-earners gained in real terms and others lost during the upward movement of wages and prices.

The demand for goods and services in Canada during the latter part of 1950 and during 1951 was met in part by an increasing volume of imports from other countries. Imports rose more than exports and the favourable balance of merchandise trade of $262 millions in 1949 became a deficit of $17 millions in 1950 and $122 millions during 1951. In large measure this trend must have reflected the increasing size and character of our capital investment and defence programmes. As a result the full impact of such demands for goods and services did not fall on our own productive capacity. Since our deficit on current account was more than matched by a net inflow of foreign funds on capital account, our foreign exchange reserves increased. The external value of the Canadian dollar at the end of 1951 was about 4 percent higher than at the end of 1950.

Canadian Merchandise Trade ①

(Calendar Years, in Millions of Dollars)

	U.S.		U.K. & £ Area		Other Countries		Total	
	1950	1951	1950	1951	1950	1951	1950	1951
Exports to②	2,051	2,334	673	899	433	730	3,157	3,963
Imports from	2,131	2,813	647	729	396	543	3,174	4,085
Balance with	— 80	—479	+ 26	+170	+ 37	+187	— 17	—122

①Preliminary figures for 1951.
②Includes re-exports.

New capital investment expenditures in Canada during 1951 are estimated to have been about 22 percent higher in value than in 1950 and perhaps 9 percent greater in physical volume. Hostilities in Korea greatly stimulated the development of natural resources directly or indirectly required for the defence programmes of Western countries. Another factor of increasing significance was that the rapid growth of the Canadian economy during the war and post-war periods strained the capacity of many quite essential facilities to the very limit. This made it necessary to undertake expansion programmes if such situations were not to become serious bottlenecks in defence and other high priority aspects of Canadian development. In the aggregate our capital investment expenditures reached a very high level during 1951 which made it very desirable to postpone the least essential types of investment under existing conditions.

Following the increase in output which took place in the latter part of 1950 and first quarter of 1951 the level of Canadian production—particularly in manufacturing—did not show nearly as rapid a rate of increase. However, for 1951 as a whole compared with 1950 there is believed to have been an increase in total physical production of 5 or 6 percent towards which manufacturing, agriculture and services all made substantial contributions. More than the usual amount of farm production was still in the form of inventories at the end of 1951 and accounted for a large part of the rise in total inventories during the year. Changes in the value, volume and price of expenditures on Canadian goods and services are shown in the following table. Estimates of price and volume factors should be regarded as approximate only.

Canada: Estimated Expenditure on Goods and Services ①

	Billions of Dollars		*Increase from 1950 to 1951*		
	1950	**1951**	**Billions $**	**Physical Volume %**	**Average Price Factor %**
Personal Consumption Expenditure	11.9	13.1	1.2	0	11
Combined Federal, Provincial and Municipal Purchases of Goods and Services	2.3	3.1	.8	22	10
New Expenditure on Housing, Plant and Equipment	3.2	3.9	.7	9	11
Change in Inventories②	1.0	1.7	.7		
Exports (including services).	4.2	5.1	.9	8	12
Total Expenditure (including import content)	22.5	26.8	4.3		
Less Imports (including services)③	–4.5	–5.6	–1.1	13	12
Gross National Expenditure (Gross National Product)	18.0	21.2	3.2	5½	11

①Based on National Accounts: Income and Expenditure; Preliminary 1951, published by the Dominion Bureau of Statistics. Minor adjustments have been made in the process of rounding off thefigures.
②The dollar figures are changes in book values.
③The import content of the expenditure components shown in the first part of the table must be deducted in order to arrive at a figure of expenditure on Canadian resources.

Of the increase of $800 millions shown for all government expenditures in the above table the increase in defence expenditures by the Federal Government would account for about $650 millions.

MONETARY CONDITIONS ● By June 1950 the post-war growth in the volume and value of production appeared to have about caught up with the level of public holdings of liquid assets—which had shown little change since the end of the war period—in terms of pre-war relationships. However, the domestic financing required by the increase in our foreign exchange reserves during the latter half of 1950, and the rise in bank credit (i.e. loans and holdings of non-Government of Canada securities) during the final quarter of 1950 and the first quarter of 1951, resulted in a substantial increase in the size of liquid asset holdings.

Changes in General Public Holdings of Certain Liquid Assets and Related Factors

9 months ending March 31, 1951

(Millions of Dollars)

LIQUID ASSETS	June 30/50 to Sept. 30/50	Sept. 30/50 to Dec. 31/50	Dec. 31/50 to Mar. 31/51	Total
Currency & Active Bank Deposits . .	394	– 68	–182	144
Inactive Notice Deposits	44	– 22	42	64
Gov't of Canada Securities	151	49	– 47	153
Total	589	– 41	–187	361
RELATED FACTORS				
Foreign Exchange Financing				
B. of C. net For. Exch. Assets . .	293	– 67	–120	106
Gov't Loans to Exchange Fund . . .	295	45	60	400
	588	– 22	– 60	506
All other Government transactions① . .	– 62	–293	–326	–681
Bank Loans & Non-Gov't. Security Holdings .	59	332	151	542
All Other . . .	4	– 58	48	– 6
Total	589	– 41	–187	361

①Including overall Government cash surplus and changes in guaranteed debt and Government Accounts.

In an expanding economy and at a time when world prices were rising sharply, some increase in bank credit was necessary. However, the rate of increase in this period appeared to be excessive. The main factors behind this undue rise in bank credit were the strong desire to accumulate inventories and the upward trend in consumer credit. Expansion of bank credit for such purposes under existing economic circumstances had the direct effect of increasing the degree of competition for goods and services and also increased the volume of liquid assets held by the public.

In view of the degree of inflationary pressure and the strength of the demand for more credit, the Bank felt that the situation called for action over and above further tightening of the chartered banks' cash reserve position. Meetings with representatives of the chartered banks during February 1951 to discuss the situation found the banks in agreement with the suggestion that further expansion in total bank credit was undesirable under existing conditions. To prevent such a development the banks undertook a more rigorous scrutiny of applications for credit with a view to curtailing advances for less essential purposes and to encourage borrowers to go to the security market or elsewhere for their capital requirements.

At the time this understanding was reached, banks had already made substantial commitments for additional lines of credit and outstanding bank credit increased for a period. However, there was no net increase in bank loans and non-Government of Canada investments between the end of March and December 31, 1951. After allowing for seasonal increases in temporary advances to purchase grain and Canada Savings Bonds there was an appreciable decline in bank credit during the last nine months of the year.

The following classification of bank loans and non-Government of Canada investments indicates that there were reductions in the advances which are normally associated with the extension of consumer credit, the total of which showed some decline on the whole after June 30, 1951, in contrast to the previous upward trend. There was also a decline in bank holdings of non-Government investments which in many cases presumably meant that borrowers had turned towards the security market for their requirements.

Estimated Changes in Chartered Bank Canadian Loans and Non-Government Securities

(Millions of Dollars)

Canadian Loans	June 30/50 to March 31/51	March 31/51 to Dec. 31/51
Government and Other Public Services①	56	—24
On Securities②	17	40
Farmers	28	47
Grain Dealers	45	49
Industry	203	80
Merchandisers and Instalment Finance Companies	138	—138
Other Business	32	1
Personal (other than on securities)	31	—22
Total	549	34
Non-Government of Canada Securities		
Provincial	—34	—18
Municipal	20	—25
Corporate	7	—10
Total	—7	—53
Total Bank Credit	542	—19
Total Bank Credit excluding estimated loans for the purchase of Canada Savings Bonds and loans to grain dealers	464	—128

①Excluding Government of Canada.
②Including personal loans on the security of stocks and bonds.

There were also cases where those previously obtaining credit through bank loans arranged financing elsewhere. Loans to industrial borrowers—the category which would include loans associated with defence industry—continued to rise during the year.

In calendar year 1951 the Federal Government's overall cash surplus was substantially larger than in 1950. As the following table shows, there was a large increase in the surplus on a budget basis and as well somewhat less funds were required for non-budgetary items, particularly for the financing of foreign exchange reserves. The overall cash surplus of $354 millions in calendar year 1951 was used to retire debt. Cash balances on hand at the beginning of the year were also drawn down for the same purpose.

Government of Canada Receipts *and Payments*

(Calendar Years, in Millions of Dollars)

Budgetary Items	1949	1950	(Est.) 1951
Ordinary Revenue	2,574	2,718	3,812
Special Revenue	77	73	55
Budgetary Expenditure	*—2,367*	*—2,539*	*—3,355*
Budgetary Surplus	284	252	512
Non-Budgetary Items			
Loans to Foreign Governments (net)	*—107*	*—28*	34
Loans to Exchange Fund	*—125*	*—515*	*—215*
Other Items (net)	236	223	23
Overall Surplus Available for Domestic Debt Retirement (net)	288	*—68*	354

Changes in General Public Holdings of Certain Liquid Assets in 1951

(Millions of Dollars)

LIQUID ASSETS	Jan. 1 to Mar. 31	Apr. 1 to June 30	July 1 to Sept. 30	Oct. 1 to Dec. 31	Year
Currency & Active Bank Deposits	—182	81	15	78	—8
Inactive Notice Deposits	42	—51	28	14	33
Gov't. of Canada Securities	—47	—214	—231	—188	—680
Total	—187	—184	—188	—96	—655
RELATED FACTORS					
Foreign Exchange Financing					
B. of C. net For. Exch. Assets	—120	—63	—42	48	—177
Gov't. Loans to Exchange Fund	60	75	—20	100	215
	—60	12	—62	148	38
All other Government transactions①	—326	—200	—107	—218	—851
Bank Loans & Non-Gov't. Security Holdings	151	32	—21	—27	135
All Other	48	—28	2	1	23
Total	—187	—184	—188	—96	—655

①Including overall Government cash surplus and changes in guaranteed debt and Government Accounts.

In view of the fact that there was approximate stability in the amount of bank credit after March 31st, the extent of the Government's overall cash surplus resulted in a substantial decline during

the course of 1951 in the amount of liquid assets held by the general public as shown in the above table. In fact the reduction in total liquid asset holdings during 1951 came fairly close to offsetting the increase which took place in the abnormal circumstances of 1950 which were described in last year's Annual Report. "General public" includes non-resident holders as well as Canadians; foreign central bank balances at the Bank of Canada increased considerably in 1950 and declined by a somewhat greater amount in 1951.

SECURITY MARKETS ● It will be noted in the foregoing table that more than the entire reduction in general public holdings of total liquid assets, was accounted for by reduced holdings of Government of Canada securities. Part of this decrease resulted from the redemption of maturing issues, but in addition the general public were net sellers of Government of Canada bonds on a substantial scale during 1951.

The rate at which Government of Canada bonds were sold by the public in 1951 was undoubtedly strongly influenced by the size of new capital investment expenditures being made. On the one hand those undertaking such investment frequently disposed of their holdings of Government bonds as a means of financing their requirements. On the other hand there was a large volume of new security issues being offered in the market by provinces, municipalities and corporations, the purchase of which often involved the sale of Government of Canada bonds by investors.

Under these circumstances there was a limited buying interest in Government of Canada bonds. For reasons which have already been mentioned, it was undesirable that there should be monetary expansion through chartered banks being net buyers of Government bonds and in fact over the course of 1951 they were appreciable net sellers of such securities. Life insurance companies in post-war years have been providing funds for housing and other investment on a scale which made it necessary for them to be net sellers of Government of Canada bonds. By 1951 the life companies were moderating the scale of their lending activities and in April announced their intention to try so far as practical to limit their new investments to the annual savings of their policyholders. However, no doubt partly due to outstanding investment commitments, Canadian life companies as a group continued to be

net sellers of Government bonds in 1951. Use of the Government's overall cash surplus to retire domestic debt and the investment of the net increase in the Unemployment Insurance Fund's assets, had the effect of reducing the supply of Government bonds in the general market, on a fairly substantial scale. During 1951 Bank of Canada was an important buyer of Government securities but various other factors in our accounts largely offset the effect of such purchases on the cash reserves of the chartered banks. The Bank could not make unlimited purchases of securities without highly undesirable inflationary results and there were periods during 1951 when the quantity of longer term Government of Canada bonds being offered for sale in the market greatly exceeded demand. At such times long term bond prices declined and yields rose. In last year's Annual Report I mentioned the fact that developments in the securities market during 1950 had led to a considerable narrowing of the spread in yield as between long and short term maturities. During 1951 this trend was reversed, longer term yields rising and yields on very short term bonds declining as shown in the following table.

Maturity	Yield at Dec. 31, 1950	Yield at Dec. 31, 1951	Change
One Year	2.17%	1.71%	— .46
Two Years	2.24%	2.20%	— .04
Five Years	2.60%	2.83%	+ .23
Ten Years	3.00%	3.48%	+ .48
Fifteen Years	3.02%	3.52%	+ .50

As the difficulties and cost of financing increased in the domestic market, a number of borrowers—particularly provincial governments—turned towards the United States market. For the most part the foreign exchange proceeds of such issues were sold for Canadian dollars and were a considerable factor in maintaining the level of Canada's official reserves of gold and U.S. dollars over the year 1951. The volume of issues in the United States market was substantially larger than in 1950 and the amount of new security financing in the Canadian market was less than in 1950. During the course of the year the spread in yields between Government of Canada and other long term high grade bonds widened considerably.

CHARTERED BANK CASH RESERVES ● The effect of changes in Bank of Canada's accounts on the cash reserves of the chartered banks is shown in the following table.

Effect on Chartered Bank Cash Reserves of Changes in Bank of Canada Accounts

(Millions of Dollars)

Changes during Calendar Year 1951	Changes Producing a Decrease in Cash Reserves	Changes Producing an Increase in Cash Reserves
Increase in holdings of Gov't. of Canada and Provincial Gov't. securities . . .		249.3
Increase in Notes Held by the Public . .	55.0	
Increase in Gov't. of Canada Deposits . .	74.5	
Decrease in Other Deposits		141.0
Decrease in net foreign currency assets . .	177.4	
Decrease in other assets less other liabilities . .	1.2	
	308.1	390.3
Deduct		308.1
Increase in Chartered Bank Cash Reserves . .		82.2

During the first half of 1951 a considerable part of the Government's overall cash surplus was used to acquire foreign exchange assets which the Bank had purchased in 1950 as described in last year's Annual Report and to increase the level of Government balances at the Bank. As a result the cash reserves of the chartered banks declined by $42 millions although the Bank made net purchases of Government securities amounting to $240 millions. The ratio of cash to deposits declined from 10.1 percent at December 31st to 10.0 percent on June 30th.

During the second half of 1951 there was a decline of $154 millions in "other" deposits with Bank of Canada which operated in the direction of increasing chartered bank cash reserves. In this period the amount of Government cash surplus available was less than in the first half of the year and although some increase in Government balances and active note circulation reduced the extent of the increase in banks' cash reserves, there was an increase of $124 millions. It was evident that there was a desire on the part of banks to maintain a higher cash ratio than they had during the first half of 1951. During the second half of 1951 the Bank made a net addition of $10 millions to its holdings of

Government securities, appreciable purchases in the market having been largely offset by a reduction in its holdings on the occasion of a maturity on November 1st. The rise in chartered bank cash reserves during the latter half of 1951 increased the cash ratio from 10.0 at June 30th to 11.0 at December 31st. The daily average cash ratio was 10.6 percent in the latter half of 1951 as against 9.8 percent in the first half of the year, and 10.1 percent in the latter half of 1950.

NOTES IN CIRCULATION ● The Bank of Canada note circulation at December 31st, 1951, was $1,464,160,786, an increase over the year of $96,738,946 as compared with an increase of $59,997,695 in 1950. Of the total amount of our notes outstanding on December 31st, 1951, $273.1 millions were held by the chartered banks and $1,191.1 millions by other holders. The increase in notes held by others than chartered banks in 1951 was $55.0 millions.

OTHER SECURITIES ● At December 31st, 1951, the Bank held in "Other Securities" debentures of Industrial Development Bank amounting to $2,757,244.

PUBLIC DEBT OPERATIONS ● Arrangements were made during the course of the year for the issue of the sixth series of Canada Savings Bonds. Sales totalled $360 millions at December 31st, 1951, of which $173 millions were under the Payroll Savings Plan and $187 millions were non-payroll sales. Total sales of $360 millions compared with $272 millions for the fifth series during 1950. The sixth series of Canada Savings Bonds mature in 10 years and 9 months from date of issue, bear ten 3½ percent coupons, the first of which covers a period of one year and 9 months at a yield of 2 percent per annum. The overall yield on the Bond to maturity is 3.21 percent per annum. The limit for holdings in any one name was raised to $5,000 for the sixth series. At December 31st, 1951 the outstanding amount of Canada Savings Bonds of all series was $1,102 millions as compared with $1,005 millions at the same date last year.

On November 1st $500 millions of Government of Canada 1¾ percent bonds matured. Part of the funds to meet this maturity was provided by the issue to Bank of Canada and chartered banks of two year 2 percent bonds priced to yield 2.44 percent in the amount of $200 millions which was approximately the amount of the maturing bonds held by those investors. Other retirements of domestic funded debt during the calendar year 1951 included

$50 millions of the first war loan on February 1st, $100 millions of Deposit Certificates on February 28th and $90 millions of refundable income tax.

PROFIT AND LOSS ● The net profit from our operations in 1951 after providing for contingencies and reserves was $24,243,017.44. Payment of a dividend of $225,000 on capital stock held by the Minister of Finance left $24,018,017.44 available as compared with $19,662,548.41 in 1950. The increase in the Bank's net profit in 1951 was partly attributable to larger holdings of investments and partly to some increase in the average interest yield on investments. Under Section 31(c) of the Bank of Canada Act, the whole of the Bank's surplus was paid to the Receiver General to be placed to the credit of the Consolidated Revenue Fund.

BANK RATE ● The Bank Rate remained unchanged during 1951 at 2 percent. As in previous years banks had little occasion to borrow from us.

STAFF ● The staff of the Bank numbered 1,186 on December 31st, 1951 as compared with 1,342 a year ago. This decrease of 156 was due largely to further simplification in procedures in the Bank and Foreign Exchange Control Board which became possible during the year.

The foregoing figures do not, however, reflect the reduction arising out of the adjustments and transfers of staff which became necessary following the Government's decision to remove all permit requirements under the Foreign Exchange Control Act. As a result of this decision a further reduction of 262 in the staff of the Bank has taken place.

Members of the staff have carried out their duties energetically and loyally and I would like to express my appreciation of the high quality of service throughout the year.

I should like also on this occasion to mention that those on the staff who were engaged in the work of the Foreign Exchange Control Board have performed a difficult and valuable task in the service of Canada and to pay tribute to them for their wholehearted co-operation, loyalty and devotion to duty.

Yours very truly,
G. F. TOWERS, *Governor.*

STATEMENT OF ASSETS AND LIABILITIES

LIABILITIES

Capital Paid Up:		
Authorized and issued— 100,000 shares par value $50 each . .		$ 5,000,000.00
Rest Fund		10,050,366.82
Notes in Circulation		1,464,160,786.35
Deposits:		
Government of Canada	$ 118,901,464.89	
Chartered banks .	618,996,408.30	
Other . . .	66,089,987.39	803,987,860.58
Liabilities payable in pounds sterling, U.S.A. dollars and other foreign currencies:		
To Government of Canada	150,511,470.63	
To Others . .	5,061,818.77	155,573,289.40
Dividends Declared:		
Payable January 2nd, 1952 . . .		112,500.00
All Other Liabilities		5,212,195.12
		$2,444,096,998.27

AUDITORS' REPORT • We have made an examination of the above statement of assets and liabilities of the Bank of Canada as at December 31st, 1951 and have received all the information and explanations we have required. We report that, in our opinion, it correctly sets forth the position of the Bank at December 31st, 1951 according to the best of our information and as shown by the books of the Bank.

E. J. Howson, F.C.A.,
of Thorne, Mulholland, Howson & McPherson

Jean Valiquette, C.A.,
of Anderson & Valiquette

Ottawa, Canada, January 28th, 1952.

OF ASSETS AND LIABILITIES

AS AT DECEMBER 31st, 1951

ASSETS

Foreign Exchange:		
Pounds Sterling and U.S.A. dollars — at market value .	$ 117,833,770.22	
Other currencies — at market value .	90,261.75	$ 117,924,031.97
Subsidiary Coin		374,485.40
Investments—at values not exceeding market:		
Short term securities issued or guaranteed by Government of Canada or any Provincial Government . .	$1,141,766,318.46	
Other securities issued or guaranteed by Government of Canada or any Provincial Government . .	1,049,343,336.25	
Other securities . .	89,033,501.54	2,280,143,156.25
Industrial Development Bank:		
Total share capital, at cost . . .		25,000,000.00
Bank Premises:		
Land, buildings and equipment — at cost less amounts written off . . .		5,069,986.54
All Other Assets		15,585,338.11
		$2,444,096,998.27

G. F. Towers, *Governor*

H. R. Extence, *Chief Accountant*

PROFIT AND LOSS ACCOUNT

For the year ended December 31st, 1951

PROFIT FOR THE YEAR ENDED DECEMBER 31st, 1951 after making provision for contingencies and reserves	$24,243,017.44
APPROPRIATED AS FOLLOWS: Dividends for the year ended December 31st, 1951 at the rate of 4½% per annum:	
No. 34 paid July 3rd, 1951 . $112,500.00	
No. 35 payable January 2, 1952 112,500.00	225,000.00
BALANCE TRANSFERRED TO THE RECEIVER GENERAL OF CANADA for credit to the Consolidated Revenue Fund . . .	$24,018,017.44

BOARD OF DIRECTORS

G. F. Towers, C.M.G., *Governor*

J. E. Coyne, *Deputy Governor*

E. G. Baker, *Toronto, Ont.*

W. D. Black, *Waterdown, Ont.*
Member of the Executive Committee

G. G. Coote, *Nanton, Alta.*

N. A. Hesler, *Sackville, N.B.*

W. A. Johnston, Q.C., *Winnipeg, Man.*

A. Stewart McNichols, *Montreal, Que.*

R. H. Milliken, Q.C., *Regina, Sask.*

C. J. Morrow, *Lunenburg, N.S.*

A. C. Picard, *Quebec, Que.*

A. Pickard, *Charlottetown, P.E.I.*

H. A. Russell, *St. John's, Nfld.*

A. C. Taylor, C.B.E., *Vancouver, B.C.*

EX-OFFICIO

W. C. Clark, C.M.G., *Deputy Minister of Finance, Ottawa, Ont.*

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J. E. Coyne, *Deputy Governor*
L. P. Saint-Amour, *Assistant Deputy Governor*
D. G. Marble, C.B.E., *Secretary*
L. Rasminsky, C.B.E., *Executive Assistant to the Governors*
J. R. Beattie, *Executive Assistant to the Governors*
R. B. McKibbin, *Securities Advisor*
H. R. Extence, *Chief Accountant*
E. Metcalfe, *Auditor*

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L. F. Mundy, *Deputy Secretary*
C. H. Richardson, *Deputy Secretary*
R. H. Tarr, *Deputy Secretary*
L. P. J. Roy, *Deputy Secretary*

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Public Debt Division: M. G. Anderson, *Chief*
F. M. Peters, *Deputy Chief;* H. W. Thompson, *Deputy Chief*

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W. E. Duffett, *Assistant Chief*
G. S. Watts, *Research Officer*
S. V. Suggett, *Montreal Representative*

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C. H. Broughall, *Assistant Chief*
J. B. MacFarlane, *Assistant Chief*
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C. de V. Welsford, *Montreal Representative*

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S. Turk, *Chief;* W. A. Cameron, *Deputy Chief*

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P. D. Smith, *Chief;* Miss M. K. Rowland, *Deputy Chief*

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Regina, Sask. . . .	F. J. WILKS, *Agent*
Saint John, N.B. . . .	R. J. LILLIE, *Agent*
Toronto, Ont. . . .	E. FRICKER, *Agent* E. T. W. DAVIES, *Assistant Agent*
Vancouver, B.C. . . .	P. B. WOOSTER, *Agent*
Winnipeg, Man. . . .	G. A. IVEY, *Agent*